

# **REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON HESSEQUA MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Hessequa Municipality set out on pages 1 to 69 and 76 to 78, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hessequa Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Restatement of corresponding figures**

8. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 30 June 2012 in the financial statements of the Hessequa Municipality at, and for the year ended, 30 June 2011.

**Material losses**

9. As disclosed in note 53 to the financial statements, electricity distribution losses of 10 155 004 kWh (12%) were incurred during the 2011-12 financial year as a result of resistance to the flow of electricity, illegal connections, electricity theft, tampering with meters, meters not read correctly, faulty meters and by-passing of meters.
10. As disclosed in note 53 to the financial statements, water losses to the amount of R879 295 (547 976 kiloliters) (29%) were incurred during the 2011-12 financial year as a result of ageing infrastructure assets.

**Material impairments**

11. As disclosed in note 4 to the financial statements, trade receivables from exchange transactions to the amount of R6, 25 million was provided for as bad debts.
12. As disclosed in note 5 to the financial statements, trade receivables from non-exchange transactions to the amount of R2, 68 million was provided for as bad debts.

**Material under spending of the budget**

13. As disclosed in note 47 to the financial statements, the municipality has materially under spent the capital budget to the amount of R6, 45 million (9%). This was mainly due to the Albertinia reservoirs project starting later than initially anticipated, and electrification of Heidelberg houses projects which were to be financed by means of an external loan but was subsequently funded from the INEP grant. These projects will be finalised in the 2012/13 financial year.

**Additional matter**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

**Unaudited supplementary schedules**

15. The supplementary information set out on pages 70 to 75 and 79 to 80 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

16. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 2 to 55 of the annual report.
18. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development priorities or objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

19. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

### **Additional matter**

20. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, we draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

### **Material adjustments to the annual performance report**

21. Material errors relating to the accuracy of 34% of the reported indicators in the annual performance report were identified during the audit, of which all adjustments were corrected by management.

### **Compliance with laws and regulations**

22. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

### **Annual financial statements, performance and annual reports**

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Internal control**

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

**Financial and performance management**

25. The monitoring and review processes by management to detect and prevent non-compliance and inaccurate and incomplete financial statements, in line with the applicable laws and regulations and accounting standards were not effective, resulting in material corrections in the financial statements.

*Auditor-General*

Cape Town

30 November 2012



AUDITOR-GENERAL  
SOUTH AFRICA

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